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To: Supervisor Gloria Molina, Chair
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From: William T Fujioka
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WASHINGTON, D.C. UPDATE ON JOBS LEGISLATION

On May 28, 2010, the House passed major jobs/tax extender legislation, the American Jobs and Closing Tax Loopholes Act (H.R. 4213). <u>This bill is the legislative vehicle for many of the County's top jobs and fiscal relief priorities, including the extension of the American Recovery and Reinvestment Act's (ARRA) Temporary Assistance for Needy Families Emergency Contingency Fund (TANF ECF) and Build America Bonds (BABs) and funding for summer youth employment activities</u>. The Congressional Democratic leadership had hoped that the legislation could be cleared for the President's signature before the start of the week-long Memorial Day recess. However, the Senate will not act on the House-passed version until it reconvenes in June.

This legislation represents a compromise between various jobs, fiscal relief, and tax extender legislation, which previously passed the House and Senate. In addition to above-mentioned County priorities, the bill also includes provisions to extend Unemployment Insurance benefits, various expiring tax provisions, and to postpone until 2012 a 21 percent reduction in Medicare physician payment rates which otherwise would take effect on June 1, 2010. During the course of the week, Democratic leaders struggled to develop a package that could attract enough votes to pass. They were forced to scale back their original package, which would have increased the Federal deficit by roughly $134 billion to one which would increase the deficit by $54 billion in response to the concerns of fiscally conservative Democrats, many of whom will face tough re-election races this year.

The most significant change affecting the County is that a six-month extension of ARRA's temporary increase in the Federal match rate ("FMAP") for Medicaid, Foster Care, and Adoption Assistance through June 30, 2011 was dropped from the bill. As estimated by the Congressional Budget Office (CBO), this six-month extension would cost the Federal government roughly $24 billion. If enacted, it would provide an estimated $2.5 billion in fiscal relief for California of which roughly $170 million would reduce the County's share of non-Federal costs. Senator Majority Leader Reid has indicated that he will attempt to add back the six-month FMAP increase extension in the Senate. However, the bill's outlook in the Senate is unclear, especially because support will be needed from at least one Republican to overcome a filibuster. As passed by the House, H.R. 4213 includes the following major provisions of County interest:

TANF ECF/Subsidized Employment: The bill would appropriate $2.5 billion for TANF ECF in Federal Fiscal Year (FFY) 2011, which would be available to reimburse expenditures for benefits and services provided during FFY 2011. Because $2.5 billion is not likely to be sufficient to reimburse all qualifying expenditures incurred in FFY 2011, the Secretary of Health and Human Services is authorized to develop priority criteria for awarding grants and to adjust payments to states if the Secretary determined that the Emergency Fund is at risk of being depleted before September 30, 2011.

It also includes an amendment, developed by County staff, which carries over unused ARRA TANF ECF funds into FFY 2011 to cover subsidized employment expenditures for persons placed into subsidized jobs before FFY 2011. Without this amendment, the CBO estimates that nearly $1.5 billion of ARRA's $5 billion TANF ECF appropriation would remain unspent and lapse to the U.S. Treasury at the end of FFY 2010. The amendment would enable counties in California to assure employers that they would be able to receive wage subsidies during FFY 2011 for any subsidized employment position created before the start of the year. California, otherwise, is unlikely to receive sufficient new TANF ECF funding to reimburse subsidized employment expenditures during all of FFY 2011 after covering CalWORKs grant costs, which is the State's top priority for use of TANF ECF funds.

Summer Youth Employment: It would appropriate $1 billion for Workforce Investment Act youth activities, which may be used to provide summer employment to youth up to age 24, and be available for obligation through September 30, 2011. The bill language provides that no more than one percent of total funding may be used for administrative costs.

Build America Bonds: The bill would extend the BAB Program for two years through December 31, 2012. To keep down the increased Federal cost of the two-year extension to an estimated $4 billion over the next ten years, the Federal tax credit for BABs would be reduced from the current 35 percent to 32 percent for bonds issued in 2011 and 30 percent for bonds issued in 2012.

Recovery Zone Bonds: The bill would extend ARRA's Recovery Zone (RZ) bond authority for an additional year through December 31, 2011. Under ARRA, $10 billion in RZ economic development bonds and $15 billion in RZ facility bonds were authorized with states, large municipalities, and counties receiving allocations from the national allocation, based on their respective percentage share of total net job losses between December 2007 and December 2008. Under this allocation formula, cities and counties which did not suffer a net job loss did not receive any allocation. The bill would provide each jurisdiction with RZ bond allocations equal to the higher of the amount that would be received if bond allocations were allocated based on the percentage share of all unemployed individuals in December 2009 compared to each jurisdiction's allocation under ARRA's allocation formula. We expect that the County will receive higher bond allocations because the State's and County's share of all unemployed individuals in the U.S. is higher than our share of net job losses between 2007 and 2008.

National Housing Trust Fund: The bill would appropriate $1.065 billion for the National Housing Trust Fund to help finance affordable housing for low income families. This trust fund was established in 2008, but no funds have ever been appropriated for it.

340B Drug Discounts: The existing 340B Program would be expanded to require drug manufacturers to extend drug discounts to inpatient drugs to certain hospitals and other health facilities, including disproportionate share hospitals. Under current law, drug discounts are provided only for outpatient drugs. Similar language was included in earlier versions, but not the enacted version of health care reform.

Empowerment Zones/Enterprise Communities: The bill would extend special tax incentives provided to businesses and individuals within existing Empowerment Zones and Enterprise Communities for an additional year through December 31, 2010.

Surface Transportation Funding: The bill revises how additional surface transportation funding provided under the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147) is allocated among states. First, it would distribute the Projects of National and Regional Significance (PNRS) and National Corridor Infrastructure Improvement funding among all states based on each state's share of highway apportioned funds rather than to only the 29 states that have PNRS and National Corridor projects authorized under SAFETEA-LU. Second, it would distribute additional highway formula funds among all highway formula programs rather than the six programs designated under the HIRE Act. It also importantly includes a hold harmless to provide each state with the higher of the amount that a state would receive under the new formula versus the HIRE Act's formula. Without this hold harmless, California would lose an estimated $192.4 million (3.5 percent), as estimated by the Senate Transportation and Infrastructure Committee's majority staff.

We will continue to keep you advised.

WTF:RA
MT:sb

c: All Department Heads
Legislative Strategist